Annex C

Status of Agency Evaluations

In late 1998, the Bureau for Policy and Program Coordination's Center for Development Information and Evaluation (CDIE) examined USAID's database to determine how Agency evaluations have been influenced by reengineering guidelines that affected how and why operating units are to conduct evaluations. According to new USAID guidance, evaluations were no longer mandatory. Instead they would be driven by management's need, would assess the impact of Agency programs, and would reinforce local ownership by integrating the experiences of partners and various beneficiaries of the projects into evaluations. An analysis of evaluations for fiscal years 1997–98 revealed that over the last few previous years, both the overall number and different types of evaluations appeared to be declining rapidly.

More important, the assessment attempted to assess the evaluations conducted in those years in light of the requirements of the new guidance. The analysis found that external factors, rather than internal management needs, were usually the impetus for evaluations of the operating units. For the most part, shortages in resources or personnel—or other operational requirements that required a change in program activity to achieve objectives—drove these evaluations.

There were relatively few Impact Evaluations—reports that emphasize specific activities and their outputs and results (or intermediate results) in trying to meet strategic objectives of either USAID/Washington or Agency missions. These types of assessments represent a relatively new approach for USAID. Neither the methodology nor the requirements for these evaluations are clear. The requirements are not fully understood within the Agency. Many evaluations (rather than looking at higher level results or strategic objectives) simply defined *impact* as meeting project outputs.

The final change in the guidance—that evaluations should be participatory in both design and implementation—required a more participatory approach to evaluation. While several evaluations were conducted that were jointly sponsored by more than one agency, donor, or partner, their involvement in the design was less apparent than their participation in the implementation. Most evaluations used a rapid appraisal methodology. Many of the reports stated that the comments of partners and others were incorporated into the final project report.

Following these findings, USAID is currently contracting for a more complete analysis of the status of evaluations of its operating units and attempting to develop "best practices" in this area. Further, the Agency is reviewing its Automated Directive System to determine what revisions need to be made in USAID guidance. CDIE is participating in both international forums and country-level evaluations to develop and refine both the methodology and requirements for Impact Evaluations.

CDIE Central Evaluation Findings

Background

Each year, USAID's central evaluation office, CDIE/Program and Operations Assessment (POA), attempts to identify and analyze the Agency's highest priority (or state-of-the-art) issues. The analysis is designed to develop future

USAID policies and strategies. Central evaluations also provide operating units (missions and regional bureaus) with lessons learned and guidance for future strategic and programmatic directions. This past year the evaluations concentrated on certain themes: 1) capital markets, 2) emergency and humanitarian assistance, 3) enterprise funds, and 4) graduation from USAID assistance.

The most important evaluation findings are summarized in this annex.

Capital Markets

CDIE/POA is currently studying USAID projects for promoting capital markets development. The purpose of the study is to examine the effectiveness of Agency assistance and draw conclusions about the importance of such assistance for USAID sustainable development goals. There are three basic questions:

- Can USAID do capital markets projects well?
- If so, do capital markets projects spur economic growth?
- Who benefits from the growth produced by such projects?

CDIE-led teams carried out fieldwork to review recent USAID-funded capital markets projects in **India, Kenya, Romania,** and **the Philippines.** In addition, a CDIE researcher wrote a case study of an earlier Agency capital markets development effort: creation of investment banks in Central America in the 1960s.

The series has prompted five propositions:

1. Capital markets development cannot be left to market forces. There is a dimension of what is in the public good. Market intermediaries are likely to create monopolistic arrangements that lead to high transactions costs, an atmosphere permissive of self-dealing and rigged transactions, and insufficient flow of information to potential investors.

2. Donor support for strengthening the regulatory framework and institutions is a much more promising avenue than direct support of individual firms or investment houses.

3. A regulatory framework modeled on the U.S. system is appropriate for developing countries, though some countries may still prefer a model based on government approval rather than on disclosure of relevant circumstances. USAID can identify and contract for appropriate expertise to transfer the U.S. technology.

4. Capital markets projects are unlikely to stimulate economic growth where economic conditions are unfavorable. Inflation, large government deficits, and uncertainty about the path of future government policies all deter investment. Capital markets reforms will not produce growth in a stagnant economy. Rather, such projects are best suited to rapidly growing economies where existing capital structures are limiting investment and where firms are actively interested in additional financing.

5. In the longer term, creation of long-term debt markets is essential to reducing risk of financial crisis, such as the recent Asian experience. This will require improvements in government policy to eliminate inflationary expectations and reduce crowding out by government. Long-term finance for infrastructure has great potential for promoting growth, and innovations in debt markets can support this objective.

Emergency and Humanitarian Assistance

Complex humanitarian emergencies are by their nature multifaceted and involve many actors. The relief interventions are often undertaken in a context beyond the control of the implementing agencies.

Until recently, there was no standard methodology for evaluating emergency and humanitarian assistance. Some have likened this to "methodological anarchy." Nevertheless, it is possible to assess the impact of humanitarian assistance on vulnerable populations to some degree and to shed light on the relationship between emergency assistance and political and development processes at work.

CDIE/POA recently reviewed USAID humanitarian assistance efforts that followed war and social upheaval in **Haiti, Mozambique,** and **Rwanda.** In all three countries, extreme poverty and a highly skewed distribution of income and wealth contributed to the need for emergency aid. Civilians in each country suffered widespread and systematic human rights abuses.

Donors, including USAID, responded with increased emergency assistance, both food and nonfood (water, seed, medical supplies, farming tools). Nongovernmental organizations were the main implementers of the humanitarian response. In Haiti the international community was feeding 1.3 million people (one in seven Haitians) each day, with the United States providing 68 percent of the food. In Mozambique an estimated one third of the population of 16 million depended on food aid for 60 to 70 percent of their food needs in 1989; again, the United States provided about 60 percent of total food aid during 1987–95. In Rwanda about 1.3 million beneficiaries received emergency food aid in 1996–97.

What were the results? The assessment concluded that emergency assistance programs funded by USAID and implemented by American NGOs clearly helped save lives and alleviate suffering—which, after all, is their overarching objective.

But distributing relief supplies was a problem to some extent in all three countries. Food aid, in particular, was highly valued and became a source of violent competition—not only for its value as food but also as a source of political power for those controlling access. There were reports of corruption, theft, and political or personal favoritism in food aid distribution. And target populations did not always receive timely and sufficient food. NGOs addressed these problems with varying degrees of success.

While no aid is apolitical, humanitarian assistance in particular can result in substantial and unpredictable political effects, since it is provided in the context of conflict. Though designed to relieve suffering and promote peace, it sometimes inadvertently fuels, sustains, or exacerbates complex emergencies by making more resources available to warring parties. This is because aid does not only keep people alive in a political vacuum but also affects the local power structure and environment in which it is given.

The notion that relief assistance can be made more developmental in the context of ongoing armed conflicts is problematic. Unlike with natural disasters, with complex emergencies there is no institutional framework to provide physical security and political stability—both of which are necessary preconditions for economic development. On the contrary, complex emergencies are often characterized by a total breakdown of state institutions and social and economic structures.

The CDIE assessment offers four management-oriented recommendations:

1. *Monitoring and evaluation.* Establish a central monitoring and data collection unit to serve all donors during the early weeks of a complex emergency.

2. *Adverse political consequences.* Be alert to potential undesirable social or political effects that relief aid may cause.

3. *Reducing dependency.* Give refugees incentives to return home; impose disincentives on those remaining outside their country of origin.

4. *Capacity building.* Train technocrats to manage the postconflict economic transition, and train others in skills for which there is employment demand.

However one assesses the effectiveness of humanitarian assistance in response to complex emergencies, one point cannot be emphasized too strongly: it is far better to prevent complex emergencies from occurring in the first place than to respond to victims' needs afterward.

Enterprise Funds

With the end of the Cold War, the United States was presented with a novel development challenge: helping former Soviet-bloc nations move from a centrally planned economy to a market economy. Addressing this task, President Bush proposed a new concept, enterprise funds—nonprofit corporations that would use a U.S. government grant to make equity investments and loans to medium-size and small enterprises. The funds would be managed by private individuals with extensive business or country experience. They would seek to stimulate the growth of the private sector in a specific country or region.

Four enterprise funds in eastern Europe—one **Polish,** one **Hungarian,** one for what then was **Czechoslovakia,** and one **Bulgarian**—have been operating for more than eight years. Despite a mixed record, the early funds probably played a key role in the early days of the transition from communism to market economies. They demonstrated U.S. support for private sector development and, in the case of the Polish fund, helped shape that transition. They also made many good investments in emerging companies and helped them grow. And they helped catalyze the interest of private investors in eastern Europe.

Seven other enterprise funds are newer, with between five and six years of operation, and so provide a more limited base on which to judge their eventual success. The newer funds have uniformly been much slower in making investments than the early funds, so most of their results are still in the future. In their first 42 months of operation the eight newest funds disbursed only 24 percent of their capital for investments, compared with 60 percent for the first three funds during an equivalent period. The newer funds also have found the costs of operation to be much higher than did the early funds.

Enterprise funds began as an ad hoc response to the specific situation posed in 1989 by the impending transition to market economies by Hungary and Poland. They have subsequently been used to promote the private sector in quite different circumstances. This has moved funds from a situation in which they were a creative and potentially highly effective tool to one in which they have found greater difficulties finding a proper niche. It has also raised the question of whether enterprise funds in these countries have an incentive structure appropriate to the longer term problems they now face.

USAID Graduation

Despite years of graduating countries from its assistance, USAID does not have a policy or uniform process as to how or when to graduate countries. On the contrary, there appears to be an institutional bias against graduating countries. Graduation appears to be based more on budgetary or political factors. CDIE reviewed the Agency's experience with concluding concessional assistance to a country or a sector once it is regarded as no longer needing support. The study posed two questions:

- When is a USAID-supported country ready for graduation?
- How should the Agency structure, manage, and implement a country graduation?

The study suggests USAID does not have a policy on when or how to graduate countries from assistance. The bias the Agency seems to have against ever graduating countries may explain the lack of a graduation policy. A CDIE analysis of USAID's ad hoc measures to graduate countries concluded the following:

1. Graduation decisions are confounded with budget decisions to the detriment of clear thinking and planning. A transition strategy requires careful planning and is labor intensive. A short-term decision based on budgetary imperatives abrogates this process. The Agency has made these decisions on the basis of budget or political considerations rather than on predefined policy.

2. Socioeconomic indicators are useful to identify graduation candidates. Any reasonable set of indicators will identify the same set of countries as graduation candidates. While institutional capacity in less developed countries is important, it is

difficult to design an appropriate institutional indicator.

3. Secret deliberations about graduation plans can backfire. A transparent and collaborative decision-making process would improve stakeholder awareness and involvement and allow attention to dwell on improving institutional capacity in less developed countries. Graduation planning requires sufficient lead time to develop a strategy and implement a transition plan. A clear understanding between USAID/ Washington and the mission regarding the requirements of the transition strategy and the lead time is essential. The host government needs to be an integral part of the planning. When host governments do not receive a clear message from USAID leadership regarding the transition, there are likely to be tensions and misunderstandings.

   The plan must also give attention to the institutional capacity of the private sector and nongovernmental organizations as well as public sectors.

4. A graduation plan should specify the rationale and nature of the post-assistance relationship. In addition to institutional and legal issues, some relationships have significant resource demands (funding an endowment or maintaining a development attaché in an embassy).

The evaluations and reports conducted by the General Accounting Office and the Office of the Inspector General are discussed in the Agency's goal *Keep USAID a Premier Development Agency,* in chapter 7.